

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 AGRE-00 /105 W

-----127639 070220Z /75

R 070142Z SEP 78

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2507

INFO TREASURY WASHDC

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EO 11652: N/A

TAGS: EFIN MX

SUBJECT: GOM ECONOMIC FORECASTS FOR 1978

1. SUMMARY. IN ANNEXES TO THE INFORME, GOM HAS PUBLISHED SOME DETAIL AND COMMENTARY ON ECONOMIC DEVELOPMENTS IN 1978 TO DATE AND FORECASTS FOR THE BALANCE OF THE YEAR. GDP IS STILL PROJECTED TO GROW ROUGHLY 5 PERCENT, WITH INVESTMENT INCREASING MORE THAN CONSUMPTION. THE CPI IS EXPECTED TO INCREASE 16 PERCENT DURING 1978, AND THE WPI IS EXPECTED TO GROW 19 PERCENT. THE PUBLIC SECTOR DEFICIT IS EXPECTED TO EXCEED THE ORIGINAL DEFICIT BY 30 BILLION PESOS, UNLESS ADDITIONAL REVENUE MEASURES ARE TAKEN. THE FIRST HALF CURRENT ACCOUNT DEFICIT WAS \$850 MILLION, AND IS FORECAST AT \$2.4 BILLION FOR THE YEAR. WE ARE COMMENTING SEPARATELY. END SUMMARY.

2. IN ANNEX II TO THE SECOND INFORME, THE GOM HAS INCLUDED SOME COMMENTARY AND DETAILS ON THE MEXICAN ECONOMY'S PERFORMANCE TO DATE AND THE OUTLOOK FOR THE BALANCE OF THE YEAR WHICH THIS MESSAGE SUMMARIZES.

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3. GROSS DOMESTIC PRODUCT, MEXICO'S GDP IS STILL EXPECTED TO INCREASE ABOUT 5 PERCENT IN REAL TERMS FROM 1977 TO 1978. INDUSTRIAL PRODUCTION IN THE FIRST HALF OF 1978 WAS ROUGHLY 8 PERCENT ABOVE YEAR EARLIER LEVELS; OUTPUT OF MANUFACTURERS WAS UP 6.4 PERCENT. THE LATTER WAS DUE LARGELY TO OUTPUT OF AUTOS AND INVESTMENT GOODS, WHICH HAD BOTH DECLINED IN THE YEAR EARLIER PERIOD. OUTPUT OF CRUDE

OIL AND DERIVATIVES WAS UP 15.5 PERCENT IN THE FIRST HALF OF 1978, BUT THIS LAGS BEHIND PLANS WHICH "IMPLIES IT WILL BE DIFFICULT TO ACHIEVE THE PEMEX PRODUCTION TARGETS AND THIS HAS IMPORTANT IMPLICATIONS FOR THE BALANCE OF PAYMENTS AND PUBLIC FINANCES."

4. AS REGARDS AGRICULTURE, THERE SHOULD BE INCREASES IN THE PRODUCTION OF RAW MATERIALS BUT DECLINES IN THE PRODUCTION OF FOODSTUFFS EXCEPT WHEAT. WHILE THERE WAS TO BE AN INCREASE IN THE LAND PLANTED WITH BASIC FOODSTUFFS, PRELIMINARY STATISTICS INDICATE A DECLINE OF 8.1 PERCENT. IMPORT REQUIREMENTS FOR 1979 ARE EXPECTED TO INCREASE.

5. AS REGARDS DOMESTIC EXPENDITURE, REAL CONSUMPTION IS EXPECTED TO INCREASE 4.5 PERCENT FROM 1977 TO 1978, WITH BOTH PRIVATE AND PUBLIC CONSUMPTION UP. FIXED CAPITAL FORMATION IS EXPECTED TO INCREASE 9.2 PERCENT, WITH FAVORABLE SIGNS OF RECOVERY OF PRIVATE INVESTMENT.

6. EMPLOYMENT AND SALARIES. THE NUMBER OF PARTICIPANTS IN THE SOCIAL SECURITY SYSTEM INCREASED 6.7 PERCENT FROM JUNE 1977 TO JUNE 1978, WITH THE CONSTRUCTION SECTOR SHOWING THE STRONGEST EMPLOYMENT GAINS. SALARY INCREASES HAVE BEEN AROUND 12 PERCENT, BUT VARIOUS FRINGE BENEFITS RAISES THIS TO 15 PERCENT. THIS IMPLIES A SMALL DECLINE IN REAL WAGES OVER THE COURSE OF THE YEAR.  
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7. PRICES. THE CPI IS NOW EXPECTED TO INCREASE 16 PERCENT DURING THE COURSE OF THE YEAR (17 PERCENT ON A YEAR TO YEAR BASIS) AND A WPI INCREASE OF 19 PERCENT IS FORECAST. SEPARATELY, ON SEPTEMBER 4, BANK OF MEXICO DIRECTOR-GENERAL ROMERO KOLBECK TOLD THE PRESS THAT IN AUGUST THE NATIONAL CPI INCREASED 1.0 PERCENT AND THE MEXICO CITY WPI DECLINED 0.2 PERCENT.

8. THE FINANCIAL SYSTEM'S LIABILITIES ARE EXPECTED TO INCREASE 141 BILLION PESOS DURING 1978. OF THIS AMOUNT, 81 BILLION PESOS WILL BE AVAILABLE FOR CREDIT TO THE PUBLIC SECTOR WITH THE BALANCE GOING TO THE PRIVATE SECTOR. THIS IS A HIGHER NUMBER THAN THAT PROJECTED LAST NOVEMBER (114 BILLION PESOS) WHEN PREPARING THE BUDGET.

9. PUBLIC FINANCES. PUBLIC SECTOR SPENDING IN THE FIRST HALF OF 1978 WAS 308.4 BILLION PESOS, UP 35.8 PERCENT FROM THE FIRST HALF OF 1977. THERE ARE NUMEROUS APPLICATIONS FOR INCREASES IN BUDGETS, A SIGNIFICANT PART OF WHICH ARE FOR CURRENT SPENDING. RECEIPTS IN THE FIRST HALF WERE 262.3 BILLION PESOS UP 29.5 PERCENT AND HELPED IN PART BY

EXPORT TAX RECEIPTS (THOUGH PEMEX WAS 25 PERCENT IN ARREARS.) THE DEFICIT OF 48.5 BILLION PESOS (INCLUDING OPERATIONS OF PUBLIC SECTOR ENTITIES NOT SUBJECT TO BUDGET CONTROL) WAS 44 PERCENT ABOVE THAT OF THE YEAR EARLIER PERIOD. THE FEDERAL GOVERNMENT DEFICIT (25.6 BILLION PESOS) WAS FINANCED DOMESTICALLY THROUGH THE ISSUE OF TREASURY CERTIFICATES AND THE BANKING SYSTEM. THE DEFICIT OF THE REST OF THE PUBLIC SECTOR SUBJECT TO BUDGET CONTROL (20.8 BILLION PESOS) WAS FINANCED EXTERNALLY.

10. THE REPORT STATES "EVERYTHING SEEMS TO INDICATE THAT SPENDING INCREASES WILL BE PERMITTED IN THE SECOND HALF THAT WILL PUT PRESSURE ON THE ORIGINAL DEFICIT. IT IS CALCULATED THAT THE ECONOMIC DEFICIT WILL EXCEED THE UNCLASSIFIED

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ORIGINAL DEFICIT BY 30 BILLION PESOS AND THE LACK OF

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RESOURCES TO FINANCE IT WILL REACH 20 BILLION PESOS. SHOULD OTHER SPENDING INCREASES MATERIALIZE THE GAP COULD REACH 32 BILLION PESOS. IN ORDER TO FACE THESE ADDITIONAL PRESSURES, COMPENSATORY INCOME-FINANCING MEASURES SHOULD BE TAKEN."

11. BALANCE OF PAYMENTS. THE FIRST HALF CURRENT ACCOUNT DEFICIT IS ESTIMATED AT \$850 MILLION, OF WHICH THE SECOND QUARTER ACCOUNTED FOR \$804 MILLION. EXPORTS IN THE FIRST HALF WERE \$2,410 MILLION, OF WHICH PETROLEUM EXPORTS WERE \$680 MILLION. MANUFACTURED EXPORTS WERE UP 13 PERCENT BUT MOST OTHER CATEGORIES DECLINED FROM THE FIRST HALF OF 1977. IMPORTS IN THE FIRST HALF OF 1978 WERE \$3,050 MILLION, UP 25 PERCENT FROM THE YEAR EARLIER FIGURE. IMPORTS OF INVESTMENT GOODS WERE UP 11.5 PERCENT, WHILE THOSE OF PRIMARY AND INTERMEDIATE GOODS WERE UP 38 PERCENT FROM YEAR EARLIER FIGURES. THE SERVICES ACCOUNT REGISTERED A \$210 MILLION DEFICIT. RECEIPTS FROM IN-BOND INVESTMENTS AND TOURISM WERE 24 PERCENT AND 29 PERCENT, RESPECTIVELY, ABOVE YEAR EARLIER FIGURES. INTEREST PAYMENTS ON THE PUBLIC SECTOR DEBT WERE \$900 MILLION, 19 PERCENT ABOVE THE YEAR EARLIER FIGURES. PUBLIC SECTOR INDEBTEDNESS INCREASED \$1,100  
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MILLION. MORE COMPLETE DATA WILL BE AVAILABLE WITHIN A WEEK. THE CURRENT ACCOUNT DEFICIT FOR THE YEAR IS PROJECTED AT \$2,350 MILLION. LUCEY

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014